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Jamaica & Dep

Agricultural Situation

Effects of Rising U.S. Gains Prices

2007

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Report Highlights:
Under sustained high prices for corn, soybean meal and wheat, Jamaican feed mills and bakeries have lost capacity to absorb further input price increases, resulting in significant increases in the domestic retail prices for poultry meat and bakery products. Prices for these products have increased well above the overall inflation rate during 2006, and are projected to accelerate during 2007.

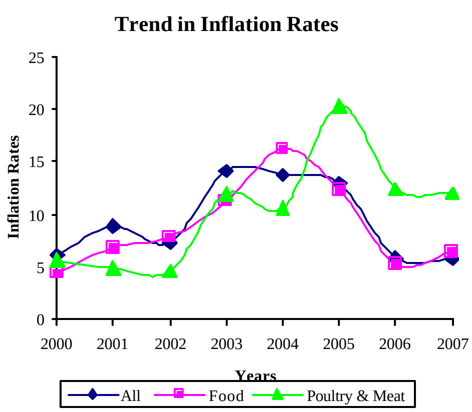
Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Kingston [JM1]
[JM]

Overall Price Influence
As a net importer of finished foods and food ingredients, movements in Jamaica's domestic food price indices are partially exogenously determined by influences in the major exporting markets. The vulnerability to external stimuli is particularly pronounced in the Jamaican agricultural and manufacturing sectors, which depend disproportionately on imported inputs. Further, the lack of input market diversification in these sectors magnifies the risks from adverse market conditions, political climate, and random influences in specific countries.

Buoyed by maritime advantage and supply reliability, the United States remains the major supplier of finished foods and food ingredients to Jamaica, accounting for an annual average of 50% of total food imports. Jamaica's livestock and bakery industries, which depend almost exclusively on the United States for major raw materials, are especially sensitive to supply and demand conditions in U.S. commodity markets.

Poultry and Feed Industry
Jamaica's annual demand for feed grains and soybean meal are fulfilled by imports from the U.S. The poultry industry accounts for the largest proportion of feed grains and soybean meal (over 80%) consumed in animal feeds in Jamaica, and is relatively more exposed to impulses in U.S. commodity markets. The domestic poultry industry, which is dominated by two vertically integrated feed mills, is protected by a 260% import duty on poultry products. The market intervention and structure accommodate pricing in the industry based on input costs and/or supply controls. Time series data over a thirteen-year period show strong correlation (0.79) between domestic retail poultry prices and U.S. corn prices (fob) during periods of high or increasing corn prices. However, the weaker association (0.41) during periods of lower corn prices could be indicative of the influence of supply controls.

With poultry meat accounting for an overwhelming proportion of animal protein consumption in Jamaica, movements in the price index of meat and poultry products is largely determined by poultry prices. Despite the market distortion, poultry and meat prices have generally increased at a slower rate than the composite of all food products and the overall consumer price index up to 2004. However, influenced by increasing U.S. grains prices, the retail price index for poultry and meats jumped to a ten-year record during 2005 and is expected to remain substantially above the overall inflation rate under continued strong international demand for U.S. coarse grains. Over the last four years, chicken prices have increased at an average of 10% per year, with increases accelerating well above overall inflation to 11% and 13% during 2005 and 2006, respectively. For the first three months of 2007 chicken meat prices rose by five percent, and are projected to round out the year at 15%, while overall inflation is forecasted at single digit.



Given the sensitivity of household expenditure to poultry prices, the effect of rising grains prices is partially transferred to consumers during a specific time period. The increase in retail poultry prices during 2005 is indicative of a transfer of residual corn and soybean meal price increases from 2004. Increased prices during 2006 and 2007 are directly related to the 25% increase in corn prices faced by domestic producers during that year and the projected 36% increase for 2007. As company profitability shrinks under rising input costs, consumers are expected to face increasing proportions of subsequent grains and soybean price changes.

Bakery Industry

Easier shipping logistics and the ownership of Jamaica's sole wheat flourmill by U.S. interest - Archer-Daniel Midland Company (ADM) - influence the dependence of the domestic bakery industry on United States wheat supplies. Despite the monopolistic nature of the domestic wheat flour market, prices are in part implicitly determined by socio-political considerations. As a major staple in the Jamaican diet, household expenditure, especially in the lower quintiles, is extremely sensitive to adverse adjustments in wheat flour prices. The Jamaican retail bakery industry operates on an oligopolistic structure with a few dominant players and several price-taking specialty bakeries. Like the poultry industry, retail bakery prices are determined largely on a cost-plus basis. However, price movements are similarly restricted by socio-political factors.

Prices of the two major wheat-based staples (flour and bread) have increased above overall inflation during 2006 and are projected to increase by a further 15% and 20%, respectively, during 2007. Given the political and social sensitivity to increasing bakery product prices, retail prices are generally adjusted to reflect historical and/or projected movements in input prices. The spike in bread prices during 2003 likely reflects adjustment for sustained relatively low price increases over the previous three years and a buffer for anticipated input price increases during the following two years. In fact, over a seven-year period up to 2005, prices of bakery products increased above overall inflation in only one year (2003), confirming the sensitivity to price increases and the resultant pressures on gross margins in the bakery industry. Price increases for 2006 and 2007 are directly related to increases in wheat prices during those years. As the capacity of bakeries to absorb adverse changes in input costs diminishes under contracting profitability, larger portions of input price changes are expected to be directly transferred to consumers. Domestic retail prices for bakery products are therefore expected to move proportionately with changes in U.S. wheat prices as long as prices are sustained in the proximity of current levels.